

Statutory Reference:

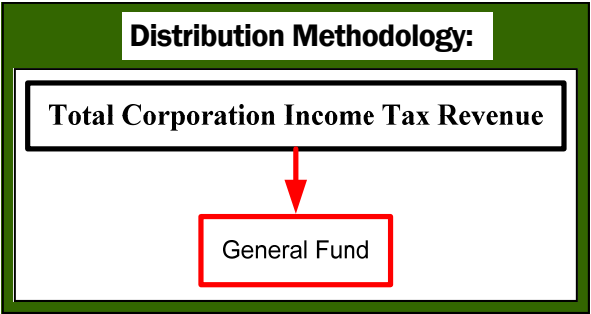
- Tax Rate (MCA) – 15-31-121,
- Tax Distribution (MCA) – 15-31-121, 15-1-501(1)
- Date Due – by the 15th day of the fifth month following the close of the corporate fiscal year (15-31-111, 15-31-502). Estimated taxes due April 15th, June 15th, September 15th, and December 15th (15-31-502).

Applicable Tax Rate(s):

The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

Distribution:

Beginning fiscal 2006, all corporation tax revenue is distributed to the general fund.



Collection Frequency:

Monthly, Quarterly, and Annually

% of Total General Fund Revenue:

FY 2004 - 4.90%
FY 2005 - 6.42%
FY 2006 - 9.00%



Revenue Estimate Methodology:

Data

The data used to develop the estimates for the corporation income tax are provided by the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides corporation data from the corporation income tax return series that include total corporation income, Montana allocation information, and the Montana tax liability. The return series tends to be relatively dated information because corporations are allowed up to 10.5 months after the end of the tax year to file the return. The DOR also provides a series based on the corporation income tax payment data.

Several steps must be taken prior to analysis of the corporation income tax data. The corporation tax estimate for the period is calculated using the DOR payment data series. Upon receipt of the data series, all prior year payments must be removed. Next, the data is broken into two parts, taxpayers paying greater than or equal to \$100,000 annually and taxpayers paying less than \$100,000. Finally, the large taxpayer data is disaggregated based on the industrial sector of the corporation.

Analysis

A new approach was developed to project corporate income taxes for the estimated period. The corporation income tax is difficult to estimate accurately, given the high level of variability in collections. Collection patterns show that current tax payments often originate in a previous year. Included in fiscal year data are late payments, audit payments, and refunds. These activities tend to promote misinterpretation of how high, or low as the case may be, Montana corporate profitability is in any given tax year.

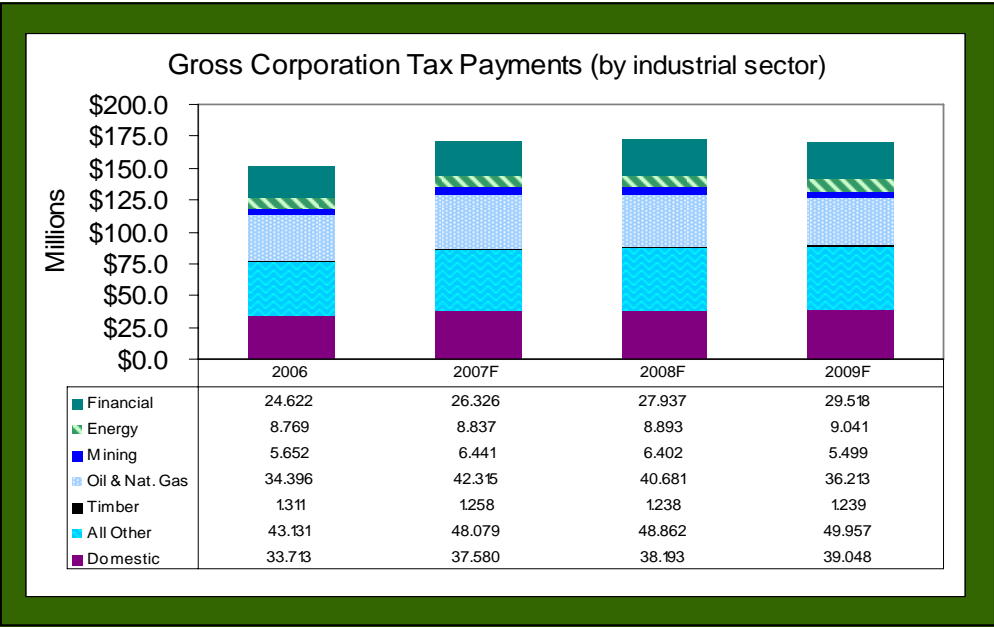
A simple review of SABHRS data will not distinguish the many anomalies of the data, leading to the adoption of incorrect assumptions. The approach developed for the corporation estimate employs DOR corporation tax payment data to make future estimates as accurate as possible. By disaggregating the data based on corporate industrial sector, specific components of the corporate landscape can be analyzed, measured, and forecast independently with industrial sector projections.



Finally, adjustments to historical payment data, prior year payments, audits, and refunds can provide an indication of future payment behavior and a base from which estimates can be developed. The new technique was tested using fiscal 2005 payment data and industrial sector growth factors. This validation process showed that the technique accurately projected fiscal 2006 collections as reported on SABHRS. The results of this technique differ greatly from other types of corporate tax payment analysis/forecasting and provide a more accurate estimation for rate of overall growth.

Many corporate entities in Montana do not demonstrate profitability behavior like national corporations. For example, financial corporations lag the nation in profitability, and Montana's large natural resource base is as volatile as the commodity prices, affecting the payments of oil and gas, energy, mining, and timber corporations. To ensure that proper growth is assessed to each industrial sector, the payment data of the high payment corporate tax payers is separated by industry and growth rates are established for each of the industrial sectors.

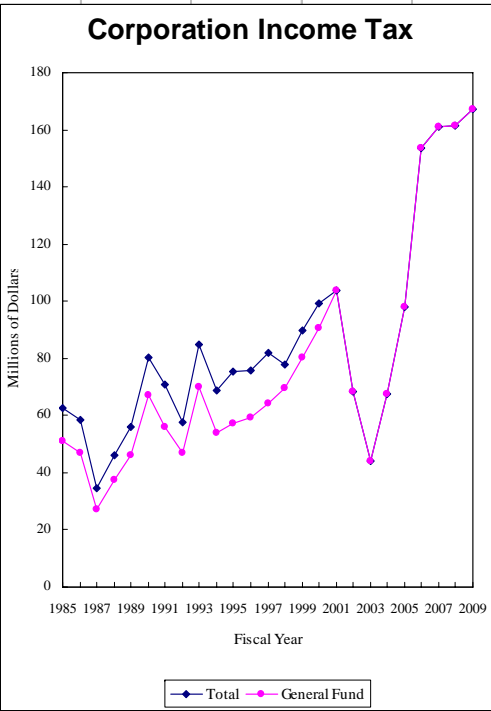
To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent fiscal year, 2006, of actual payments. The projected payments by sector are seen in the figure below. The sectors are next summed to produce the estimate of total corporation income tax payments. For the estimated period, projected gross tax payments are \$170.8 million in fiscal 2007, \$170.5 in fiscal 2008, and \$170.8 in fiscal 2009.



Adjustment and Distribution
After the estimate for gross corporation tax payments is complete, several adjustments are required. The first adjustment is to remove the projected refunds from the gross payments. Gross payments are also reduced for unusual refunds anticipated by the DOR and are increased by audit activities. The final adjustment increases gross payments by estimated prior year payments.



		Total	General Fund	GF
	Fiscal	Collections	Collections	Percent
	Year	Millions	Millions	Change
A	1985	62.609205	50.976990	Not App.
A	1986	58.584784	47.121070	-7.56%
A	1987	34.566361	27.371125	-41.91%
A	1988	46.200104	37.584806	37.32%
A	1989	56.139749	46.152627	22.80%
A	1990	80.315504	67.087905	45.36%
A	1991	70.784279	56.006784	-16.52%
A	1992	57.682672	47.027797	-16.03%
A	1993	85.054483	70.003987	48.86%
A	1994	68.871909	53.996713	-22.87%
A	1995	75.519940	57.425136	6.35%
A	1996	75.761891	59.336677	3.33%
A	1997	81.999138	64.078549	7.99%
A	1998	77.928498	69.724680	8.81%
A	1999	89.624560	80.142416	14.94%
A	2000	99.088867	90.682672	13.15%
A	2001	103.670487	103.670487	14.32%
A	2002	68.173253	68.173253	-34.24%
A	2003	44.137518	44.137518	-35.26%
A	2004	67.722940	67.722940	53.44%
A	2005	98.213716	98.213716	45.02%
A	2006	153.675068	153.675068	56.47%
F	2007	161.057000	161.057000	4.80%
F	2008	161.301000	161.301000	0.15%
F	2009	167.267000	167.267000	3.70%

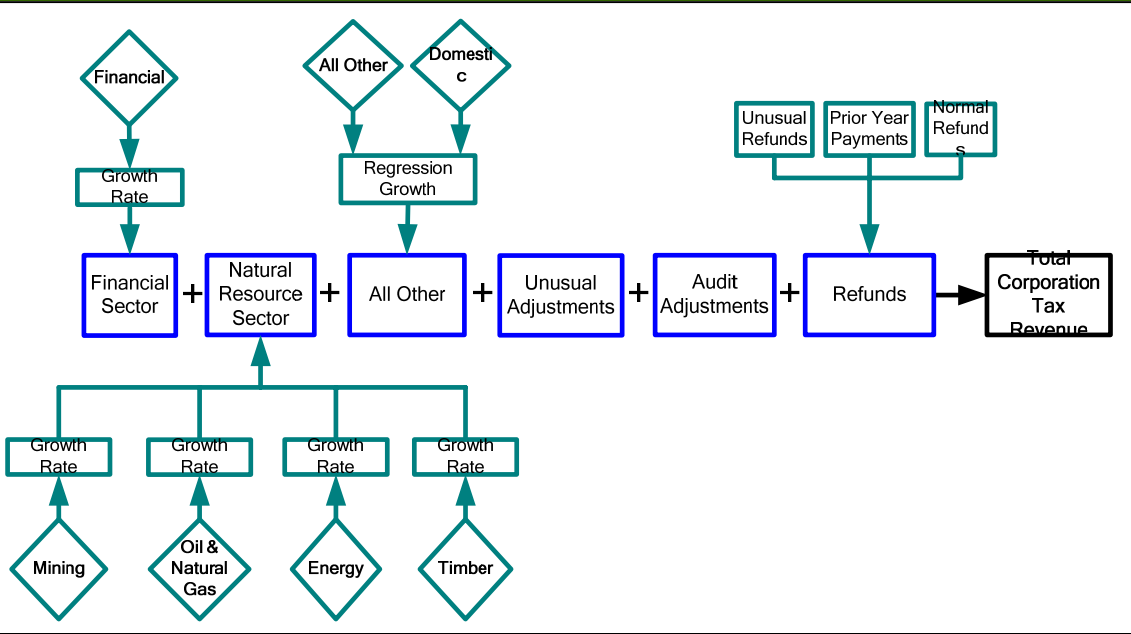


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Forecast Methodology:



Revenue Description:

The corporation income tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts are adjusted for allowable credits.



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